Report

of the

Examination of

Winterthur International America Insurance Company

Sun Prairie, Wisconsin

As of December 31, 2000

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April 12, 2002

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Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

WINTERTHUR INTERNATIONAL AMERICA INSURANCE COMPANY
Sun Prairie, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The Texas Department of Insurance conducted the previous examination of the company in 1996 as of December 31, 1995. The current examination covered the intervening period ending December 31, 2000, and included a review of such 2001 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

**Independent Actuary's Review**

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance. They reviewed the adequacy of the company's loss reserves and loss adjustment expense reserves. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

## II. HISTORY AND PLAN OF OPERATION

The Winterthur International America Insurance Company (hereinafter also "Winterthur International" or the "company") was incorporated on November 10, 1945, under the laws of Texas and began business on December 31, 1945. Organized as a wholly owned affiliate of the Republic Insurance Company of Dallas under the name of Republic Indemnity Company, the name was changed on May 1, 1950 to Republic Casualty Company and, on December 31, 1954, to Vanguard Insurance Company. The present name was adopted on January 1, 1998.

Through June 30, 1996, financial control was held by Republic Insurance Company, a wholly owned subsidiary of Republic Financial Services Inc., a holding company. On December 9, 1982, Winterthur U.S. Holdings, Inc., a wholly owned subsidiary of Winterthur Swiss Insurance Company, acquired all of the outstanding stock of Republic Financial Services, Inc.

On July 1, 1996, the company was sold by Republic Insurance Company to an affiliate, General Casualty Company of Wisconsin (hereinafter also "General Casualty"). Effective January 1, 1997, the company was redomesticated from Texas to Wisconsin. The company joined an affiliated pooling agreement among members of the General Casualty Group effective January 1, 1997, with a 5% participation, but extensive use was made of reinsurance to limit the volatility of the direct business contributed to the pool.

As of December 31, 2000 Winterthur conducted its operations in the United States through a network of five distinct groups of companies that operate independently of one another. The function of the holding company subsystem led by General Casualty was to act as Winterthur's distributor of commercial and personal lines products in the Midwestern region of the United States, and to provide insurance on U. S. risks to multinational accounts. Each company in the General Casualty Group has a marketing role, which allows the group the flexibility necessary to diversify the range of products and programs it is able to offer. Winterthur International's role is to write large national and multinational risks. Additional information concerning the history and present composition of the holding company system headed by Winterthur Swiss Insurance Company, and the holding company subsystem led by General Casualty, is contained in the section of this report titled "Affiliated Companies."

Through June 30, 2001, the company conducted its operations jointly with General Casualty through the latter's home office in Sun Prairie, Wisconsin. All of the company's business is acquired through insurance brokers. The company operates on a nationwide basis through four branch offices (Chicago, Dallas, Los Angeles and New York).

On July 1, 2001, XL Capital Ltd. completed its purchase of Winterthur Swiss Insurance's international operations. As part of the purchase, the ownership of the company transferred from General Casualty to X.L. America, Inc. The underwriting and claims operations of the company have remained substantially unchanged as a result of the sale. However, one change to its operations is the addition of a branch office in Stamford, Connecticut. For additional information related to the change in control, see the section of this report captioned, "Appendix — Subsequent Events". The following paragraphs describe the operations through June 30, 2001.

As of the examination date, Winterthur International had no employees of its own; most operations were conducted by employees of General Casualty Company of Wisconsin. Winterthur Investment Management Corporation managed the company's investment operations, subject to the supervision of Winterthur International's board of directors. The business practices and internal controls of General Casualty and Winterthur Investment Management Corporation were established by Winterthur U.S. Holdings, Inc. Winterthur U.S. Holdings, Inc. oversaw compliance with its standards through its own internal audit staff.

Virtually all expenses were initially paid by General Casualty. Expenses other than federal taxes and investment management were allocated in accordance with an affiliated reinsurance pooling agreement according to each insurer's participation in premiums and losses. Federal tax allocations were established in accordance with a written consolidated federal income tax agreement. Investment management fees and expenses were paid to Winterthur Investment Management Corporation in accordance with a contract effective December 30, 1998. Intercompany balances with affiliates were created in the ordinary course of business with settlements generally made on a monthly basis. Written agreements with affiliates are further described in the section of this report titled, "Affiliated Companies."

In 2000, the company wrote business in 50 of the 52 jurisdictions in which it was licensed. The distribution of direct premiums written in 2000 by states:

| | | |
|---|---|---|
| California | $ 42,353,423 | 29.2% |
| Illinois | 13,172,779 | 9.1 |
| New York | 12,269,903 | 8.5 |
| Michigan | 10,376,732 | 7.2 |
| Texas | 9,596,061 | 6.6 |
| New Jersey | 9,046,065 | 6.2 |
| All Other | 48,109,705 | 33.2 |
| Total U.S. | $144,924,668 | 100.0% |

The distribution of direct premiums written in 2000 by country:

| | | |
|---|---|---|
| Germany | $ 16,794,450 | 33.0% |
| United Kingdom | 13,218,839 | 26.0 |
| Canada | 5,996,186 | 11.8 |
| Japan | 3,703,073 | 7.3 |
| Swaziland | 2,052,823 | 4.0 |
| Venezuela | 1,986,080 | 3.9 |
| Mexico | 1,748,544 | 3.4 |
| All Other | 5,382,927 | 10.6 |
| Total Non-U.S. | $50,882,922 | 100.0% |

As of the examination date, the company was licensed in the District of Columbia, Guam, Puerto Rico, and all the states of the United States except New Hampshire.

In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Disability
(d) Liability and Incidental Medical Expense
(e) Automobile and Aircraft
(f) Fidelity
(g) Surety
(j) Credit
(k) Worker's Compensation
(n) Miscellaneous

The following table is a summary of the net insurance premiums written by the company in 2000. The growth of the company is discussed in the Financial Data section of this report.

| Line of Business | Direct Premium | Reinsurance Assumed | Reinsurance Ceded | Net Premium |
|---|---|---|---|---|
| Fire | $47,426,625 | $16,396,990 | $63,064,300 | $759,315 |
| Allied lines | 36,433,463 | 11,418,284 | 47,387,580 | 464,167 |
| Homeowner's multiple peril | 1,570,033 | 2,696,722 | 1,570,033 | 2,696,722 |
| Commercial multiple peril | 12,641,590 | 7,485,606 | 12,809,318 | 7,317,878 |
| Ocean marine | 1,619,377 | 5,409 | 1,619,377 | 5,409 |
| Inland marine | 8,978,684 | 320,424 | 8,978,684 | 320,424 |
| Earthquake | 722,871 | 127,593 | 830,253 | 20,211 |
| Worker's compensation | 135,392 | 8,698,600 | 135,392 | 8,698,600 |
| Other liability - occurrence | 49,191,486 | 5,309,476 | 53,324,123 | 1,176,839 |
| Other liability - claims made | 9,394,230 | 465,773 | 9,444,139 | 415,864 |
| Products liability - occurrence | 14,478,347 | 620,408 | 14,705,929 | 392,826 |
| Products liability - claims made | 10,703,051 | 461,608 | 10,754,391 | 410,268 |
| Private passenger auto liability | | 5,339,338 | | 5,339,338 |
| Commercial auto liability | 1,912,635 | 3,883,195 | 1,967,418 | 3,828,412 |
| Auto physical damage | 599,634 | 6,015,950 | 601,485 | 6,014,099 |
| Fidelity | 172 | 5,626 | 172 | 5,626 |
| Burglary and theft | | 1,912 | | 1,912 |
| Total All Lines | $195,807,590 | $69,252,914 | $227,192,594 | $37,867,910 |

As discussed earlier, prior to July 1, 2001, the company participated in an affiliated pooling agreement with General Casualty of Wisconsin, General Casualty Company of Illinois, Hoosier Insurance Company, Regent Insurance Company, and Winterthur International America Underwriters Insurance Company, whereby all of the writings of these companies are combined and reapportioned. With the exception of Winterthur International America Underwriters Insurance Company, effective July 1, 2001, the company is no longer affiliated with the above referenced companies nor does it participate in the previously affiliated pooling agreement. This change is described in the section of this report captioned, “Appendix — Subsequent Events”.

## III. MANAGEMENT AND CONTROL

### Board of Directors

The board of directors consists of twelve members. Directors are elected annually to serve one-year terms. Members of the company's board of directors may also be members of other boards of directors in the XL Capital Ltd. Group. The directors receive no compensation specific to their service on the board because all are employees of the holding company system.

As of April 2002 the board of directors consisted of the following persons:

| Name and Residence | Principal Occupation | Term Expires |
|---|---|---|
| Richard Banas<br>Medfield, Massachusetts | Executive Vice President &<br>Chief Underwriting Officer<br>XL Insurance Operations | 2002 |
| Celia R. Brown<br>Rye Brook, New York | Executive Vice President &<br>Chief Administrative Officer<br>XL Insurance Operations | 2002 |
| Nicholas M. Brown, Jr.<br>New Cannan, Connecticut | President & Chief Executive<br>XL Insurance Operations | 2002 |
| Janet E. Duncan<br>West Hartford, Connecticut | Senior Vice President-Actuarial<br>XL Insurance Operations | 2002 |
| Hans Gmunder<br>Ohringer, Switzerland | Deputy Chief Executive Officer<br>XL Winterthur International | 2002 |
| George Keller<br>Denton, Texas | Deputy Chief Executive Officer<br>XL Winterthur International | 2002 |
| Richard H. Miller<br>New Fairfield, Connecticut | Executive Vice President &<br>Chief Financial Officer<br>XL Insurance Operations | 2002 |
| Theresa M. Morgan<br>White Plains, New York | Senior Vice President-General Counsel<br>of X.L. America Primary Insurance Operations | 2002 |
| Sean F. Murphy<br>Darien, Connecticut | Senior Vice President-Finance<br>XL Insurance Operations | 2002 |
| Willi Suter<br>Brutten, Switzerland | Executive Vice President<br>XL Capital Ltd. | 2002 |
| Clive Tobin<br>Am See, Switzerland | President & Chief Executive Officer<br>XL Winterthur International | 2002 |
| Todd Zimmerman<br>Coppell, Texas | Vice President<br>XL Winterthur International America | 2002 |

**Officers of the Company**

The senior officers appointed by the board of directors and serving as of April 2002 are listed below. Listed compensation consists of 2001 gross earnings for services rendered to X.L. America, Inc. as a whole. During 2001, no compensation was allocated to the company for non-Winterthur employees. X.L. America, Inc. expects to allocate these salaries amongst the insurance companies, including Winterthur International, in future periods.

| | | 2001 Compensation | |
|---|---|---|---|
| **Name** | **Office** | **Salary** | **Other Employee Benefits** |
| Nicholas M. Brown, Jr. | President & Chief Executive Officer | $ *** | $ *** |
| Theresa M. Morgan | Senior Vice President, General Counsel, & Secretary | *** | *** |
| Gabriel G. Carino | Vice President & Treasurer | *** | *** |
| William A. Robbie* | Senior Vice President & Chief Financial Officer | *** | *** |
| George R. Keller** | Deputy Chief Executive Officer | 248,666 | 59,121 |
| Oscar Guerrero* | Vice President & Controller | *** | *** |
| Todd Zimmerman** | Vice President – Finance | 210,899 | 19,604 |

* - indicates individuals that were hired near the end of 2001

** - indicates Winterthur International employees

*** - No portion of the expense of these individuals' salary or other employee benefits was allocated to the company in 2001.

**Committees of the Board**

The company's bylaws permit, but do not require, the formation of committees by the board of directors. Currently, there are no board committees, nor were any appointed during the period under examination.

## IV. AFFILIATED COMPANIES

As of December 31, 2000, Winterthur International America Insurance Company was a member of a worldwide holding company system controlled by Winterthur Swiss Insurance Company (hereinafter the “Winterthur holding company system”).

Winterthur Swiss Insurance Company (hereinafter also “Winterthur Swiss”) was the indirect subsidiary of the Credit Suisse Group, a global financial services company that offers a full range of banking and insurance products. Subsidiaries conduct operations in more than 26 countries on five continents. Winterthur Swiss’ annual report discloses 84 major subsidiaries worldwide which results are consolidated with that of its own, and 21 investment undertakings in nonconsolidated entities. The group entered the United States in 1936 through the establishment of the United States Branch of Winterthur Swiss. The entire emphasis of the Winterthur holding company system is on insurance and activities incidental to, or in support of, the distribution of insurance.

Winterthur Swiss operates in the United States through five separately managed property and casualty insurance groups. Each of these groups has a geographically defined operating territory. A small amount of business is sometimes written outside the defined territory to provide incidental coverage for an insured or to comply with a state’s minimum volume requirement. To facilitate its U.S. operations, Winterthur Swiss established a holding company, Winterthur U.S. Holdings, Inc. (hereinafter also “WUSH”), in 1982 as the direct parent for its U.S. operations. WUSH then acquired each of the five insurance groups, which are organized along geographic lines as follows:

| | |
|---|---|
| Republic Insurance Group (1982) | The South Central States |
| Southern Guaranty Insurance Group (1988) | The Southeast |
| General Casualty Group (1990) | The Midwest |
| Unigard Insurance Group (1992) | The West Coast |
| Blue Ridge Group (1995) | The Northeast |

Winterthur International was a member of a holding company subsystem led by General Casualty Company of Wisconsin. The function of this holding company subsystem, which consists of six insurers, is to distribute commercial and personal lines insurance products in the midwestern region of the United States, and to provide insurance on U.S. risks to multinational accounts.

Due to the sheer enormity and worldwide dispersal of the corporate interests of the Winterthur Swiss Insurance Company, this report will confine its narrative of specific entities to parents in the direct succession of control of Winterthur International, and affiliates with which Winterthur International has significant reinsurance or investment relationships. A chart of the U.S.-based companies within the Winterthur holding company system is presented later in this section of the examination report.

**Succession of Control as of December 31, 2000**

Credit Suisse Group

Credit Suisse Group is a holding company, which is active worldwide in the banking, finance, asset management and insurance industries. Credit Suisse Group is headquartered in Zurich and dates back to 1856. Its registered shares (CSGN) are listed on the SWX Swiss Exchange, and in Frankfurt and Tokyo. They are also traded in New York as an American Depository Receipt (ADR), and in London and Paris. The Group employs around 80,000 staff worldwide and all currency translations are expressed in Swiss francs (Sfr). As of December 31, 2000, the annual review report indicated assets of 987,433 million Sfr ($604,082 million), liabilities of 943,911 million Sfr ($577,457 million), shareholders equity of 43,522 million Sfr ($26,625 million), and net profit of 5,785 million Sfr ($3,539 million), on a consolidated basis.

Winterthur Swiss Insurance Company

Winterthur Swiss Insurance Company was incorporated in Switzerland in 1875. It is a prominent insurer in its own right as well as the ultimate holding company for an extensive and complex network of insurance companies throughout the world. Winterthur Swiss provides catastrophic reinsurance coverage for the General Casualty Group as described in the reinsurance section of this report. The corporation is annually audited by an independent accounting firm in accordance with the provisions of Swiss Accounting and Reporting Recommendations, and all currency translations are expressed in Swiss francs (Sfr). As of December 31, 2000, the audited financial report indicated assets of 13,536 million Sfr ($8,218 million), liabilities of 9,497 million Sfr ($5,810 million), equity of 4,039 million Sfr ($2,471 million), and annual profit after tax of 575 million Sfr ($344 million), on a consolidated basis, including minority interests.

Winterthur U.S. Holdings, Inc.

Winterthur U.S. Holdings, Inc. (hereinafter also "WUSH"), was incorporated in Delaware in 1982. It functions as the holding company for all U.S.-domiciled companies in the Winterthur holding company system, with 7 direct and 38 indirect subsidiaries, including 26 insurance companies. As of December 31, 2000, on a consolidated GAAP basis, WUSH reported assets of $3,927,406,876, liabilities of $3,195,821,897, shareholder's equity of $731,584,979, and net loss of $(68,496,572). Winterthur U.S. Holdings, Inc., is a direct wholly owned subsidiary of Winterthur Swiss Insurance Company.

General Casualty Company of Wisconsin

General Casualty Company of Wisconsin was incorporated under the laws of the state of Wisconsin on May 13, 1925, and commenced business on May 29, 1925. As of the examination date, it had 7 direct subsidiaries, consisting of 5 insurers, including Winterthur International, and two financial service companies. General Casualty writes a diverse range of commercial and personal lines coverages in 45 of the 48 jurisdictions in which it is licensed. Its marketing role is to write standard risks at standard rates. General Casualty has a 60% participation in the affiliated pooling agreement, whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $1,057,405,513, liabilities of $650,467,661, policyholders' surplus of $406,937,852, and net income of $13,140,960. General Casualty was examined concurrently with Wintertthur International as of December 31, 2000, and the results of that examination were expressed in a separate report.

**Subsidiaries**

General Casualty Company of Illinois (GCI)

General Casualty Company of Illinois (hereinafter also "GCI") was incorporated under the laws of the state of Illinois on December 14, 1972, and commenced business on January 1,

1973. Although GCI is principally dependent on staff in the employ of General Casualty to run its operations, it owns and maintains a home office in Freeport, Illinois, and maintains its books and records in its state of domicile. GCI writes business in 8 of the 28 jurisdictions in which it is licensed. It is the General Casualty Group's lead writer in Illinois, with 80.4% of its direct premiums written in that state. Outside of Illinois, the corporation writes mainly worker's compensation coverage. GCI has a 10% participation in the affiliated pooling agreement, whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $158,938,190, liabilities of $110,687,133, policyholders' surplus of $48,251,057, and a net income of $501,686. The corporation is a direct wholly owned subsidiary of General Casualty Company of Wisconsin.

Hoosier Insurance Company

Hoosier Insurance Company (hereinafter also "Hoosier") was organized under the laws of the state of Indiana on December 2, 1986, and commenced business on December 31, 1986. General Casualty acquired all of the issued and outstanding common stock of Hoosier from Protective Insurance Company effective October 1, 1995, as part of its overall growth strategy and to provide a stronger presence for the General Casualty Group in the state of Indiana. After acquisition, Hoosier's employees became employees of General Casualty. Hoosier writes direct business exclusively in Indiana, the only state in which it is licensed. Hoosier has a 5% participation in the affiliated pooling agreement, whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $80,983,677, liabilities of $55,221,518, policyholders' surplus of $25,762,159, and net income of $1,861,551.

Regent Insurance Company

Regent Insurance Company (hereinafter also "Regent") was incorporated under the laws of the state of Wisconsin on January 22, 1963, and commenced business on May 1, 1963. It has been a wholly owned subsidiary of General Casualty from its inception and the membership of its board customarily has been identical to that of its immediate parent. Regent has no employees of its own and is principally dependent on General Casualty to provide staff to run its operations.

Regent writes business in 47 of the 50 jurisdictions in which it is licensed. In general, its marketing role within the General Casualty Group is to offer lower premium rates to preferred customers by means of strict underwriting. Regent offers participating dividend plans for its worker's compensation programs, with rate deviations in jurisdictions where this is allowed. Regent has a 15% participation in the affiliated pooling agreement whereby all business written by the General Casualty Group is combined and reapportioned. The 2000 statutory annual statement reports assets of $262,416,971, liabilities of $167,065,794, policyholders' surplus of $95,351,177, and net income of $4,339,658. Regent was also examined concurrently with Winterthur International as of December 31, 2000, and the results of that examination were expressed in a separate report.

Winterthur International America Underwriters Insurance Company

Winterthur International America Underwriters Insurance Company (hereinafter also "Winterthur Underwriters"), formerly known as Vanguard Underwriters Insurance Company, was organized under the laws of the state of Oklahoma on October 18, 1965, and commenced business on the same date. Winterthur Underwriters was a wholly owned subsidiary of Republic Insurance Company until July 1, 1996, when ownership was transferred to General Casualty Company of Wisconsin. It is licensed in California, Louisiana, Oklahoma, and Texas. Winterthur Underwriters is used by the American Department of Winterthur Swiss' International Division to provide insurance for U.S. risks to multinational accounts on a nonadmitted basis, except in the four states in which it is licensed where it acts as an admitted carrier. Winterthur Underwriters joined the affiliated pooling agreement among members of the General Casualty Group effective January 1, 1997, with a 5% participation, but extensive use was made of reinsurance to limit the volatility of the direct business Winterthur Underwriters contributes to the pool. The 2000 statutory annual statement reported assets of $78,482,260, liabilities of $55,193,342, policyholders' surplus of $23,288,918, and net income of $667,782.

As described in the section of this report titled "Appendix — Subsequent Events", effective July 1, 2001, Winterthur Underwriters was acquired by X.L. America Inc. Effective

August 1, 2001, all outstanding shares of Winterthur Underwriters were contributed to Winterthur International.

**Written Agreements with Affiliates as of December 31, 2000**

As previously noted, while General Casualty was the primary employer for its holding company subsystem, consequential services were provided by employees of certain other affiliates, including, but not limited to Winterthur Investment Management Corporation. All operations of the General Casualty Group were conducted in accordance with business practices and internal controls established by Winterthur U.S. Holdings, Inc. In addition to common staffing and management control by certain affiliates, General Casualty's relationship to its affiliates was affected by various written agreements. Reinsurance agreements are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

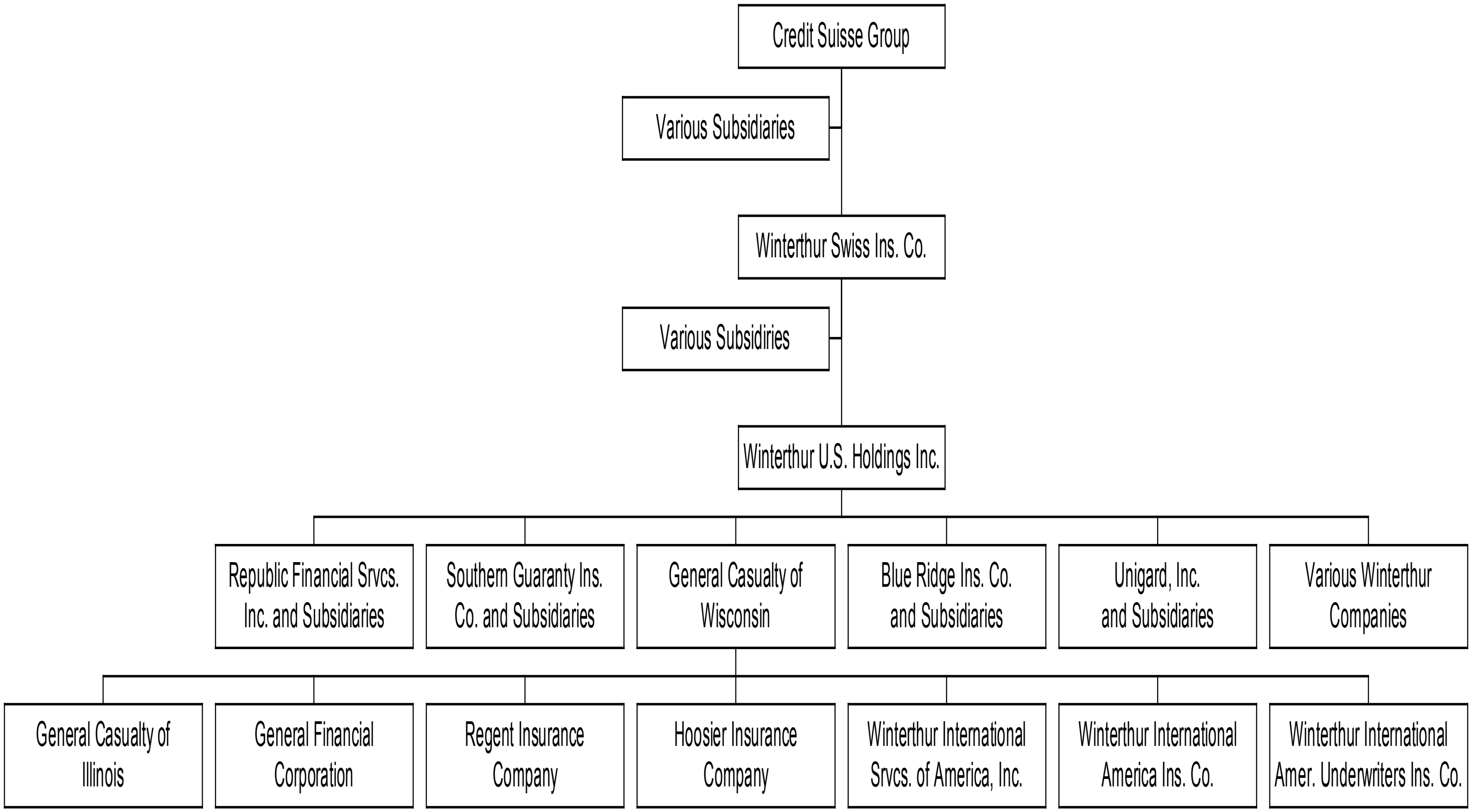
**Investment Management Agreement**

Effective December 30, 1998, General Casualty Company of Wisconsin and its affiliates entered into a service agreement with Winterthur Investment Management Corporation (hereinafter called "WIMCO"). Under this contract, WIMCO agreed to provide investment advisory and administrative services to General Casualty and its subsidiaries in compliance with the respective bylaws and investment guidelines of these companies. General Casualty agreed to pay a quarterly fee in advance based on the historical costs of salaries and other expenses associated with WIMCO's provision of these services. All cost allocations for services rendered under this agreement were to be in accordance with generally accepted accounting principles. General Casualty has the right to audit the books and records of WIMCO which pertain to the computation of charges for services provided under this agreement. This agreement provided for termination at the end of any calendar quarter by either party giving the other 60 days' prior written notice. During 2000, General Casualty Group paid $350,000 to WIMCO under this contract.

**Consolidated Federal Income Tax Agreement**

The company was party to a consolidated federal income tax agreement with certain affiliates, whereby it files its federal income tax on a consolidated basis with Winterthur U.S. Holdings, Inc. Under this contract, each party's respective obligation of benefit is calculated on a separate return basis. Payments are due no later than 30 days after Winterthur U.S. Holdings, Inc., files the applicable tax returns with the Internal Revenue Service. Any refunds owed to a participant are to be distributed within 30 days after their receipt from the Internal Revenue Service. Any payment due under this agreement which is not settled within the required 30 days shall accrue interest on the unpaid amounts at a rate equal to the percentage charged by the Internal Revenue Service. Parties to the contract agree to make applicable books and records available for inspection by the others at any time during normal business hours. This agreement was last amended effective January 1, 1997.

During 2000, the company participated in an affiliated pooling agreement with General Casualty of Wisconsin, General Casualty Company of Illinois, Hoosier Insurance Company, Regent Insurance Company, and Winterthur International America Underwriters Insurance Company, whereby all of the writings of these companies are combined and reapportioned. With the exception of Winterthur Underwriters, effective July 1, 2001, the company is no longer affiliated with the above referenced companies nor does it participate in the previously affiliated pooling agreement nor the various other agreements noted above. This change is described in the section of this report captioned, “Appendix — Subsequent Events”.




<u>Notations</u>:

1. All Subsidiaries are wholly owned.
2. As of July 1, 2001, XL Capital Ltd. and X.L. America, Inc. acquired control of Winterthur International America Insurance Company, a Wisconsin-domiciled stock insurer, as part of a larger acquisition involving the purchase of all businesses or activities carried on by or on behalf of Winterthur Swiss Insurance Company or any other subsidiary of Credit Suisse Group under the “Winterthur International” name. U.S. -based companies involved in the acquisition include: Winterthur International America Insurance Company; Winterthur International America Underwriters Insurance Company; and Winterthur International Services of America, Inc. For information on this acquisition see the section of this report titled “Appendix — Subsequent Events.”

## V. REINSURANCE

Significant treaties and arrangements are summarized as follows. The summaries reflect terms effective July 1, 2001, after the acquisition of the Company by X.L. America, Inc. The contracts contained proper insolvency provisions.

**Affiliated Ceding Contracts**

1. Type: 90% Quota Share

   Reinsured: Winterthur International America Insurance Company

   Reinsurer: XL Insurance Ltd.

   Scope: All contracts, binders, or certificates of insurance and reinsurance issued on or after the effective date to insureds in the United States, its territories and possessions, and premiums earned and losses occurring after the effective date arising from contracts, binders or certificates of insurance and reinsurance, issued before and in force on the effective date, excluding nuclear incident and insurance and reinsurance as a member of any mandatory pool or association

   Retention: 10% of losses and allocated loss adjustment expenses on insurance and reinsurance retained net of third party reinsurance

   Coverage: 90% of losses and allocated loss adjustment expenses occurring on or after the inception date arising from contracts issued before and in force on the inception date and those issued on or after the inception date on insurance and reinsurance retained net of third party reinsurance

   Premium: 90% of premiums, net of cessions for third party reinsurance obtained by the Reinsured for its own account

   Commissions: 25% of gross net premiums written. This rate is to be reviewed periodically based on transfer pricing studies to be undertaken by the parties. Adjustments to the rate will be evidenced by an amendment to this reinsurance agreement.

   Effective: July 1, 2001

   Additional Comment: All transactions are to be done in terms of U.S. Dollar equivalents on the basis of exchange rates in effect on the date of entry recorded on the Reinsured’s books. Contractual and underwriting limits are to be done in terms of U.S. Dollar equivalents on the basis of exchange rates in effect at the time of inception of new or renewal business.

   Termination: By mutual consent or by either party with 90 days notice following certain events evidencing the financial distress of the other party, or at the option of the ceding company in the event of severance or obstruction of communications or commercial or financial intercourse between Bermuda and the United States of America

**Affiliated Assumption Contracts**

1. Type: 100% Quota Share

   Reinsured: Winterthur International America Underwriters Insurance Company

   Reinsurer: Winterthur International America Insurance Company

   Scope: All contracts, binders, or certificates of insurance and reinsurance issued on or after the effective date to insureds in the United States, its territories and possessions, and premiums earned and losses occurring after the effective date arising from contracts, binders or certificates of insurance and reinsurance, issued before and in force on the effective date, excluding nuclear incident and insurance and reinsurance as a member of any mandatory pool or association

   Retention: None

   Coverage: 100% of losses and allocated loss adjustment expenses on insurance and reinsurance retained net of third party reinsurance

   Premium: 100% of premiums written, net of cessions for third party reinsurance obtained by the Reinsured for its own account

   Commissions: 12% of gross net premiums written. This rate will be reviewed periodically based on transfer pricing studies to be undertaken by the parties. Adjustments to the rate will be evidenced by an amendment to this reinsurance agreement.

   Effective: July 1, 2001

   Termination: By mutual consent, or by either party with 90 days notice following certain events evidencing the financial distress of the other party, or at the option of the ceding company in the event of severance or obstruction of communications or commercial or financial intercourse between Bermuda and the United States of America.

Effective January 1, 1997, the company entered into five reinsurance agreements related to the business produced by Winterthur International and Winterthur Underwriters, consisting of a stop-loss agreement and four facultative agreements. The purpose of these contracts was to limit the volatility of the direct business these two companies would contribute to the General Casualty Group’s reinsurance pool. While neither company continues to participate in the General Casualty affiliated pool these agreements have remained in place. A summary of the contracts follows:

**Ceding Contract**

Type: Stop Loss Reinsurance

Reinsurer: Winterthur Swiss Insurance Company

| | |
|---|---|
| Effective Date: | January 1, 1997 |
| Termination: | At any December 31st, with three months' written notice |
| Lines covered: | All business written and retained by the reinsureds in respect to International Department risks |
| Retention: | An amount of losses equal to calendar year gross net earned premiums derived from International Department business multiplied by the combined ratio for all business not derived from the International Department, plus all losses in excess of that covered by the reinsurer, if any |
| Coverage: | For purposes of determining the liability of the reinsurer to the reinsureds, the combined ratio of all risks not related to the International Department incurred for each calendar year shall be subtracted from the combined ratio for International Department risks. If this percentage is positive, that is, if the combined ratio for International Department risks is less favorable than the combined ratio for all risks not related to the International Department, the liability of the reinsurer shall be determined by multiplying this percentage by the gross net earned premiums derived from the International Department. |
| Premium: | 5% of the gross net earned premium derived from International Department business |

**Facultative Reinsurance**

The companies also entered into four facultative reinsurance treaties with several previous affiliates, including Winterthur Swiss Insurance Company (Switzerland), Vitodurum Insurance Company (Switzerland), Winterthur International of Bermuda Ltd. (Bermuda), and Winterthur International Insurance Company Limited (England). These agreements have identical terms, as summarized below:

| | |
|---|---|
| Effective Date: | January 1, 1997 |
| Termination: | At any December 31st, with 90 days' written notice |
| Lines Covered: | 100% of business written by the International Department of the reinsureds and specifically accepted on an individual cession basis by the reinsurer |
| Retention: | None |
| Coverage: | 100% on accepted risks |
| Premium: | 100% of subject premium |
| Ceding Commissions: | Equal to agency commissions paid on the underlying policies accepted, plus an allowance of up to 2.5% for state taxes and 1% for federal excise taxes to the extent that premium is subject to such taxes |

## VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2000, annual statement to the Commissioner of Insurance. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus per Examination."

**Winterthur International America Insurance Company**
**Assets**
**As of December 31, 2000**

| | Ledger Assets | Nonledger Assets | Nonadmitted Assets | Admitted Assets |
|---|---|---|---|---|
| Bonds | $67,170,184 | $ | $ | $67,170,184 |
| Cash | 10,339,002 | | | 10,339,002 |
| Agents' balances or uncollected premiums: | | | | |
| Premiums and agents' balances in course of collection | 3,036,772 | | 536,139 | 2,500,633 |
| Premiums, agents' balances, and installments booked but deferred and not yet due | 9,159,663 | | | 9,159,663 |
| Reinsurance recoverables on loss and adjustment payments | 783,253 | | | 783,253 |
| Interest, dividends, and real estate income due and accrued | | 1,128,575 | | 1,128,575 |
| Aggregate Write-ins for other than invested assets: | | | | |
| Other accounts receivable | 72,152 | | | 72,152 |
| Total Assets | $90,561,026 | $1,128,575 | $536,139 | $91,153,462 |

**Winterthur International America Insurance Company**
**Liabilities, Surplus, and Other Funds**
**As of December 31, 2000**

| | |
|---|---|
| Losses | $28,062,637 |
| Loss adjustment expenses | 6,065,335 |
| Contingent commissions and other similar charges | 364,278 |
| Other expenses (excluding taxes, licenses, and fees) | 1,081,196 |
| Taxes, licenses, and fees (excluding federal and foreign income taxes) | 281,916 |
| Federal and foreign income taxes (excluding deferred taxes) | 671,666 |
| Unearned premiums | 15,235,493 |
| Amounts withheld or retained by company for the account of others | 232,101 |
| Remittances and items not allocated | 824,677 |
| Provision for reinsurance | 1,543,600 |
| Excess of statutory over statement reserves | 513,000 |
| Drafts outstanding | 408,410 |
| Payable to parent, subsidiaries, and affiliates | 1,411,258 |
| Total Liabilities | 56,695,567 |
| Common capital stock | 5,000,000 |
| Gross paid in and contributed surplus | 21,850,000 |
| Unassigned funds (surplus) | 7,607,895 |
| Surplus as Regards Policyholders | 34,457,895 |
| Total Liabilities, Surplus, and Other Funds | $91,153,462 |

**Winterthur International America Insurance Company**
**Summary of Operations**
**For the Year 2000**

| | |
|---|---|
| **Underwriting Income** | |
| Premiums earned | $36,008,180 |
| | |
| **Deductions** | |
| Losses incurred | 22,694,826 |
| Loss expenses incurred | 4,394,219 |
| Other underwriting expenses incurred | 9,943,457 |
| | |
| Total underwriting deductions | 37,032,502 |
| | |
| Net underwriting loss | (1,024,322) |
| | |
| **Investment Income** | |
| Net investment income earned | 4,420,693 |
| Net realized capital gains or losses | (349,279) |
| Net investment gain or loss | 4,071,414 |
| | |
| **Other Income** | |
| Net gain or (loss) from agents' or premium balances charged off | (64,800) |
| Finance and service charges not included in premiums | 117,892 |
| Write-ins for miscellaneous income: | |
| Other Miscellaneous Expense | (15,138) |
| Total other income | 37,954 |
| | |
| Net income before dividends to policyholders and before federal and foreign income taxes | 3,085,047 |
| Dividends to policyholders | 863,922 |
| | |
| Net income after dividends to policyholders but before federal and foreign income taxes | 2,221,125 |
| Federal and foreign income taxes incurred | 1,143,780 |
| | |
| Net Income | $1,077,345 |

**Winterthur International America Insurance Company**
**Cash Flow**
**As of December 31, 2000**

| | | | |
|---|---|---|---|
| Premiums collected net of reinsurance | $36,102,921 | | |
| Loss and loss adjustment expenses paid (net of salvage or subrogation) | 24,381,694 | | |
| Underwriting expenses paid | 10,020,926 | | |
| Cash from underwriting | | $1,700,301 | |
| | | | |
| Investment income (net of investment expense) | | 4,220,231 | |
| Other income (expenses): | | | |
| Agents' balances charged off | (64,800) | | |
| Net amount withheld or retained for account of others | 232,101 | | |
| Write-ins for miscellaneous items: | | | |
| Service Charge Revenue | 117,892 | | |
| Other Miscellaneous Expense | (15,138) | | |
| Total other income | | 270,055 | |
| Deduct: | | | |
| Dividends to policyholders paid | | 863,922 | |
| Federal income taxes paid (recovered) | | 918,156 | |
| | | | |
| Net cash from operations | | | $4,408,509 |
| | | | |
| Proceeds from investments sold, matured, or repaid: | | | |
| Bonds | 97,576,307 | | |
| Net gains or (losses) on cash and short-term investments | 17,594 | | |
| Total investment proceeds | | 97,593,901 | |
| | | | |
| Cost of investments acquired (long-term only): | | | |
| Bonds | 107,059,589 | | |
| Total investments acquired | | 107,059,589 | |
| | | | |
| Net cash from investments | | | (9,465,688) |
| | | | |
| Cash provided from financing and miscellaneous sources: | | | |
| Surplus notes, capital and surplus paid in | 5,000,000 | | |
| Net transfers from affiliates | 1,225,495 | | |
| Other cash provided | 519,716 | | |
| Total | | 6,745,211 | |
| | | | |
| Cash applied for financing and miscellaneous uses: | | | |
| Other applications | 56,487 | | |
| Total | | 56,487 | |
| | | | |
| Net cash from financing and miscellaneous sources | | | 6,688,724 |
| | | | |
| Net change in cash and short-term investments | | | 1,631,546 |
| | | | |
| **Reconciliation** | | | |
| Cash and short-term investments, December 31, 1999 | | | 8,707,456 |
| Cash and short-term investments, December 31, 2000 | | | $10,339,002 |

**Winterthur International America Insurance Company**
**Compulsory and Security Surplus Calculation**
**December 31, 2000**

| | | | |
|---|---|---|---|
| Assets | | $91,153,462 | |
| Less liabilities | | 56,695,567 | |
| Adjusted surplus | | | $34,457,895 |
| Annual premium: | | | |
| Individual accident and health | $ | | |
| Factor | 15% | | |
| Total | | | |
| Group accident and health | | | |
| Factor | 10% | | |
| Total | | | |
| All other insurance | 37,003,988 | | |
| Factor | 20% | | |
| Total | | 7,400,798 | |
| Compulsory surplus (subject to a minimum of $2 million) | | | 7,400,798 |
| Compulsory surplus excess (or deficit) | | | $27,057,097 |
| Adjusted surplus | | | $34,457,895 |
| Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million with a minimum of 110%) | | | 10,361,117 |
| Security surplus excess (or deficit) | | | $24,096,778 |

July 2, 2001, the company agreed to stipulation and order that modified the compulsory and security surplus of the company. For additional comment on this issue see the section of this report titled “Appendix — Subsequent Events”.

## Winterthur International America Insurance Company
## Reconciliation and Analysis of Surplus
## For the Five-Year Period Ending December 31, 2000

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Surplus, beginning of year | $13,673,391 | $14,188,398 | $12,651,807 | $16,988,945 | $28,897,235 |
| Net income | 545,499 | (851,722) | 1,533,371 | 2,155,556 | 1,077,345 |
| Change in nonadmitted assets | | (240,546) | (88,324) | (75,185) | (132,083) |
| Change in provision for reinsurance | | (121,000) | 79,200 | (1,308,400) | (193,400) |
| Change in excess of statutory reserves over statement reserves | | (402,771) | (249,929) | 325,700 | (186,000) |
| Capital changes: | | | | | |
| Transferred from surplus | | 3,000,000 | | | |
| Surplus changes: | | | | | |
| Paid-in | | | 3,000,000 | 11,000,000 | 5,000,000 |
| Transferred to capital | | (3,000,000) | | | |
| Extraordinary amounts of taxes prior year | (30,492) | | | | |
| Write-ins for gains and (losses) in surplus: | | | | | |
| Prior year State Tax and Interest | | | | (111,185) | |
| Prior year Federal Tax and Interest | | 79,448 | 62,820 | (78,196) | (5,202) |
| Surplus, end of year | $14,188,398 | $12,651,807 | $16,988,945 | $28,897,235 | $34,457,895 |

## Winterthur International America Insurance Company
## Insurance Regulatory Information System
## For the Five-Year Period Ending December 31, 2000

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

| | Ratio | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|
| #1 | Gross Premium to Surplus | 189.0% | 999.0*% | 970.0*% | 667.0% | 769.0% |
| #1A | Net Premium to Surplus | 0.0 | 282.0 | 171.0 | 114.0 | 110.0 |
| #2 | Change in Net Writings | 0.0 | 999.0* | (19.0) | 14.0 | 15.0 |
| #3 | Surplus Aid to Surplus | 0.0 | 1.0 | 0.0 | 0.0 | 4.0 |
| #4 | Two-Year Overall Operating Ratio | 6.1 | 81.0 | 86.0 | 88.0 | 89.0 |
| #5 | Investment Yield | 4.0 | 6.5 | 5.0 | 5.8 | 6.2 |
| #6 | Change in Surplus | 0.o | 0.0 | 38.0 | 62.0* | 19.0 |
| #7 | Liabilities to Liquid Assets | 0.0 | 86.0 | 78.0 | 66.0 | 65.0 |
| #8 | Agents' Balances to Surplus | 0.0 | 19.0 | 18.0 | 10.0 | 9.0 |
| #9 | One-Year Reserve Devel. to Surplus | 0.0 | (5.0) | (20.0) | (3.0) | 2.0 |
| #10 | Two-Year Reserve Devel. to Surplus | 0.0 | (17.0) | (18.0) | (27.0) | (7.0) |
| #11 | Estimated Current Reserve Def. To Surplus | 0.0 | 0.0 | (21.0) | 4.0 | 10.0 |

Effective January 1, 1997, Winterthur International was added to the General Casualty Pool with a 5% participation in the net pooled business. As a result, during 1997 and 1998, several writings ratios were exceptional. Ratio No. 6 was exceptional in 1999 due to a $11 million surplus contribution during the year.

**Growth of Winterthur International America Insurance Company**

| Year | Admitted Assets | Liabilities | Surplus As Regards Policyholders | Net Income |
|---|---|---|---|---|
| 1996 | $14,232,740 | $44,342 | $14,188,398 | $545,499 |
| 1997 | 75,340,435 | 62,688,628 | 12,651,807 | (851,722) |
| 1998 | 63,450,053 | 46,461,108 | 16,988,945 | 1,533,371 |
| 1999 | 78,087,302 | 49,190,067 | 28,897,235 | 2,155,556 |
| 2000 | 91,153,462 | 56,695,567 | 34,457,895 | 1,077,345 |

| Year | Gross Premium Written | Net Premium Written | Premium Earned | Loss And LAE Ratio | Expense Ratio | Combined Ratio |
|---|---|---|---|---|---|---|
| 1996 | $26,773,053 | $0 | $0 | 0.0% | 0.0% | 0.0% |
| 1997 | 143,796,191 | 35,664,081 | 25,522,833 | 71.4 | 20.5 | 91.9 |
| 1998 | 164,791,940 | 28,969,052 | 27,060,680 | 68.7 | 28.3 | 97.0 |
| 1999 | 192,823,146 | 32,903,186 | 31,577,045 | 69.1 | 26.7 | 95.8 |
| 2000 | 265,060,504 | 37,867,910 | 36,008,180 | 75.2 | 26.2 | 101.4 |

As stated earlier, effective January 1, 1997, the company joined an affiliated pooling agreement among members of the General Casualty Group with 5% participation. As demonstrated by the table above, prior to joining this affiliated pooling agreement, the company had relatively small gross premium written and retained no net business. General Casualty Company of Wisconsin, the company's direct parent, monitored the capital requirements of the company and contributed $19 million of capital as the company's writings increased significantly on both a gross and net basis. These contributions were responsible for the majority of surplus increases during the examination period.

**Reconciliation of Policyholders' Surplus per Examination**

The company reported $34,457,895 in policyholders' surplus as of December 31, 2000. The examination resulted in no adjustments or reclassifications to this reported figure.

## VII. SUMMARY OF EXAMINATION RESULTS

**Compliance with Prior Examination Report Recommendations**

The previous examination was conducted by the Texas Department of Insurance as of December 31, 1995. A review of the examination report indicated that the company was not in compliance with Article 2.11 of the Texas Insurance Code, which requires a minimum of seven directors. The two additional directors were elected during the first quarter of 1996.

## Summary of Current Examination Results

### Receivable from Parent, Subsidiaries and Affiliates

The examination noted that General Casualty was making claim payments throughout the year on behalf of several Winterthur Swiss affiliates and charged the amount paid for the claim and related loss adjustment expenses to the respective affiliate. General Casualty did not receive a commission or fee for the services provided to the affiliates, as other Winterthur affiliates perform similar services for General Casualty. The examination was able to trace the majority of balances due to General Casualty to subsequent receipts and therefore deemed no adjustment was necessary. However, the company had no formal written agreement documenting the duties and responsibilities related to these payments. Signed written agreements help develop and maintain a division of accountability and responsibility. Due to the sale of Winterthur International America Insurance Company to X.L. America, Inc. described in the section of this report titled "Appendix — Subsequent Events", these receivables were transferred from General Casualty's balance sheet to Winterthur International's balance sheet. In addition, the examination noted that Winterthur International continues to provide these services on behalf of overseas affiliates, subsequent to the sale to XL Capital Ltd. While, in response to this examination finding, the company filed a Claim Expense Reimbursement Agreement that was approved by the OCI on December 5, 2002, a recommendation is in order to remind the company to address analogous situations in the future. It is recommended that the company develop and execute agreements, which will clearly and accurately disclose the nature and details of all the various transactions amongst affiliates, both foreign or domestic, for all services provided and for settlement of any outstanding balances, pursuant to s. 611.61, Wis. Stat.

In addition, these agreements would be reportable to the Commissioner prior to becoming effective, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code, as all would be subject to disapproval. It is recommended that the company submit any future proposed agreements, at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

### Advance Premium

As of December 31, 2000, the company was incorrectly netting the balance of this liability with "Premiums and Agents' Balances in the Course of Collection". According to the NAIC

Annual Statement Instructions—Property and Casualty," advance premiums result when policies have been processed, and the premium has been paid prior to the effective date. These advance premiums are considered to be fully unearned. This unearned premium reserve is to be reported in the liabilities, surplus and other funds exhibit of the annual statement. As an alternative, companies may accumulate advance premiums in a suspense account as a separate liability, "advance premiums", on page 3 of the annual statement under aggregate write-ins for liabilities. Using this treatment, companies would not include advance premium in either written premium or the unearned premium reserve."

Codification, which became effect January 1, 2001, changed the reporting and no longer provides the option to include in the unearned premium reserves. According to Statements of Statutory Accounting Principles (SSAP), No. 53, paragraph 13, "…advance premiums are reported as a liability in the statutory financial statement and not considered income until due."

No adjustment to surplus is proposed due to lack of materiality. However, it is recommended that in future annual statements, the company properly report advance premium in accordance with the NAIC's Accounting Practices and Procedures Manual.

**Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance to review the adequacy of the company's loss and loss adjustment expense reserves. The independent actuarial firm determined that the company's reserves were adequate and no adjustments were necessary.

In addition, the independent actuarial firm reviewed the report of the opining actuary for qualitative issues, addressing areas of the methodology and assumptions, which are to some extent based on actuarial judgement. The following recommendations were made related to the actuarial report supporting the opinion of the company's appointed actuary:

- It is recommended that the company's appointed actuary include in their actuarial report a comparison of their selected gross loss and loss adjustment expense reserves with the company's carried gross reserves.
- It is recommended that the company's appointed actuary include in their actuarial report the reconciliation of the actuarial data to the company's Schedule P to facilitate regulatory review.

## VIII. CONCLUSION

As previously reported, the company has experienced several changes during the examination period that have significantly impacted the company's financial position as well as its writings. These changes have included; a sale between affiliates, a redomestication from Texas to Wisconsin, and joining an affiliated pooling agreement among members of the General Casualty Group. For additional comments related to additional changes during 2001, see the section of this report titled "Appendix — Subsequent Events".

Policyholders' surplus has increased 152%, from $13,673,391 on December 31, 1995, to $34,457,895 as of December 31, 2000. From calendar year 1995 to calendar year 2000, direct premiums written increased by 244%. The company reported net income in four of the last five years.

The examination resulted in five recommendations, none of which were repeated from the previous examination conducted by the Texas Insurance Department. In addition, there were no adjustments to policyholders' surplus or reclassifications in balance sheet line items as a result of the examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 30 - Receivable from Parent, Subsidiaries, and Affiliates—It is recommended that the company develop and execute agreements, which will clearly and accurately disclose the nature and details of all the various transactions amongst affiliates, both foreign or domestic, for all services provided and for settlement of any outstanding balances, pursuant to s. 611.61, Wis. Stat.

2. Page 30 - Receivable from Parent, Subsidiaries, and Affiliates—It is recommended that the company submit any future proposed agreements, at least 30 days in advance in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

3. Page 31 - Advance Premium—It is recommended that in future annual statements, the company properly report advance premium in accordance with the NAIC's Accounting Practices and Procedures Manual

4. Page 31 - Independent Actuary's Review—It is recommended that the company's appointed actuary include in their actuarial report a comparison of their selected gross loss and loss adjustment expense reserves with the company's carried gross reserves.

5. Page 31 - Independent Actuary's Review—It is recommended that the company's appointed actuary include in their actuarial report the reconciliation of the actuarial data to the company's Schedule P to facilitate regulatory review.

## X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

| Name | Title |
|---|---|
| Randy Milquet | Data Processing Audit Specialist |
| DuWayne Kottiwitz | Insurance Financial Examiner |
| Jean Suchomel | Insurance Financial Examiner |
| Mark Knievel | Insurance Financial Examiner |
| Richard Manamba | Insurance Financial Examiner |

Respectfully submitted,

Tim Vande Hey
Examiner-in-Charge
Senior Insurance Financial Examiner

## XI. APPENDIX—SUBSEQUENT EVENTS

Effective July 1, 2001, this office approved the acquisition of Winterthur International America Insurance Company, a Wisconsin-domiciled stock insurer, by X.L. America, Inc. The acquisition was part of a larger acquisition involving XL Capital, Ltd.'s purchase of all businesses or activities carried on by or on behalf of the Winterthur Swiss Insurance Company or any other subsidiary of Credit Suisse Group under the "Winterthur International" name. The companies were depooled from the General Casualty inter-company pooling agreement July 1, 2001.

In connection with the sale to X.L America, Inc., the two parties entered into a General Service Level Agreement in which General Casualty provides certain services, including but not limited to financial reporting, to Winterthur International and Winterthur Underwriters.

The company agreed to a stipulation order that modified the company's calculation of compulsory and security surplus as well as established conditions that must be maintained in order for the company to recognize credit for reinsurance ceded to XL Insurance Ltd. for purposes of computing its compulsory and security surplus. In accordance with this order the company's compulsory surplus shall be the greater of:

(a) $2,000,0000; or
(b) An amount equal to fifty percent (50%) of premiums written for the preceding twelve calendar months, net of reinsurance and dividends to policyholders; or
(c) An amount equal to twelve percent (12%) of direct premiums written and assumed for the preceding twelve calendar months.

A review of the company's financial statements as of September 30, 2001, indicated that the company was approximately $30 million deficient in regards to compulsory surplus in accordance with the stipulation order described above. On December 5, 2001, the company received a $64 million capital contribution to address this deficiency.